

Banknotes will remain an important means of payment in the years ahead

**Welcome and Keynote address by Dr Monde Mnyande,
Chief Economist and Executive General Manager of the South
African Reserve Bank, at the Bank Note Design Competition Gala
Evening of the South African Bank Note Society, Pretoria,
29 August 2007**

The Chairperson of the South African Bank Note Society, Dr Heinz Wirz

Distinguished guests

Competition finalists

Lecturers from the respective design schools

Ladies and gentlemen

It is indeed an honour to have been approached last week to deliver this keynote address. I was privileged to attend the Bank Note Design Competition for the first time last year and I am quite certain having glanced briefly at the exhibition, that we can expect an equally impressive standard of competition this year.

On previous occasions, a comprehensive account has been given by the relevant keynote speakers on the history of the banknote issuance in South Africa. And to the extent that this historical information is readily available on both the website of the South African Bank Note Company and that of the South African Reserve Bank, I wish tonight to very briefly highlight the most recent general trends in the means of payment and a few aspects related to ensuring the continued confidence placed in our currency.

In his abstract, Peter Chartres, writing for the Centre for Central Banking Studies argued that:

“All central banks aim to preserve the integrity and stability of their currency. Part of that challenge is to ensure that the currency notes themselves command the confidence of those who use them.”¹

Today, South Africans rely on money in many forms. We buy and sell products and services using coins, banknotes, cheques, credit cards, and by means of electronic transactions. While cash remains the dominant means of payment for relatively low value transactions, recent years have seen a marked increase in the range and number of payment instruments and services, particularly retail payments.

In addition to the traditional coins and banknotes and other paper-based instruments (notably cheques), direct debit and credit transfers, debit and credit cards, and telephone banking as well as internet banking facilities have become more widely available. Electronic systems have rapidly increased in importance, both for retail and wholesale (high value) transactions to the point where they now account for the majority of payments in the formal sector, by number as well as by value.

The rand value of notes and coin in circulation has nevertheless shown considerable growth over the years and amounted to no less than R59 billion at the end of July 2007. However, as other means of payment have been introduced, the ratio of notes and coin in circulation to gross domestic product, initially fell quite significantly from a level of about 3,8

¹ Peter Chartres, The Issue of Banknotes, Handbooks in Central Banking, No. 18. Centre for Central Banking Studies, Bank of England

per cent of GDP in the early 1970's to about 2,3 per cent in the early part of the new century.

Since 2004, there has once again been a reversal in the trend to levels above 2,5 per cent and this can be ascribed to stronger growth in informal sector activity and so-called “grey market” transactions, increased social security transfers and wider circulation of the currency in the SADC region.

Banknotes in circulation have a distinct behavioural pattern during the course of a month, and indeed during the course of a year.² Total notes and coin outside the Reserve Bank may be divided into the private banks' holdings of notes and coin in bank vaults and automated teller machines (ATMs), on the one hand, and the non-bank public's holdings, on the other. This seasonal pattern results from conventions and habits regarding wage and salary payments and household consumption expenditure.

Many employers pay their employees at or close to the end of the month, and at that time convert deposits into cash. Though many other employees are paid by means of direct credits to their bank accounts, they invariably have a high transactions demand for notes and coin on payday and withdraw cash from their bank accounts. Soon afterwards, the cash is spent on goods and services or is used to redeem outstanding debt.

Businesses and other suppliers accumulate the notes and coin in their cash registers and then deposit the cash in their bank accounts. The

² A note on cash holdings in South Africa during the transition to the year 2000, by V V Mamba and J P van den Heever, SARB Quarterly Bulletin, March 2000.

banks, in turn, deposit the cash with the Reserve Bank, causing a decline in the amount of notes and coin in circulation. This general monthly scenario is somewhat different for the months of November, December and January.

From early November in any particular year, the amount of notes and coin in circulation starts rising strongly on a daily basis, usually reaching a peak on one of the four days before Christmas. This trend is strengthened by the payment of annual wage and salary bonuses in November and December, when many people enjoy an extended holiday and migrant workers return home.

People generally require more cash when travelling. Most importantly, the greater spending on gifts, recreation and other holiday goods during the festive season creates a strong demand for notes and coin. Conversely, during January the amount of notes and coin in circulation declines considerably as pay patterns return to normal. It is quite clear however, that banknotes can most certainly be expected to remain an important means of payment in the years ahead.

The Bank recognises the importance of using external expertise and creative contributions in the design phase of our currency and we are here tonight to honour all those who have participated in this year's competition. Internationally, the terms of reference in evaluating banknote designs are essentially along the lines of ensuring that they do not discriminate against any gender, race or class. The designs should also be appealing and should be recognisable as South African, reflecting as far as possible the diversity of our nation state.

The new designs must also as far as possible be timeless, durable, and publicly acceptable and must eventually be suitable for accommodating the incorporation of certain important security features. The colour as well as the images or patterns on the designs should have specific meaning. They should ideally be designed in such a way that they are acceptable to those of our nation state who happen to be illiterate and those who are visually impaired.

When producing banknotes, the South African Bank Note Company in turn needs to make use of the latest technological developments to ensure durability and security. The Company must, for example, consult widely with international banknote printers to find the most appropriate security features that would provide a deterrent against counterfeiting and ensure durability at reasonable cost. From a Director of the South African Bank Note Company, I am sure that the Managing Director of the Bank Note Company will use my utterances auspiciously in his next year's budget proposal to our Board meeting.

As you are no doubt aware, the South African Reserve Bank released its current series of banknotes into circulation from 1 February 2005. This was the first redesign of the banknotes since the previous series was introduced in 1992. South African banknote design is highly regarded internationally, and the current banknote series has thus far also withstood any major counterfeiting threat. Banknote redesign every six to eight years is in line with international best practice and South Africa's current banknotes are a window on the country, its people, heritage and culture.

The current design incorporates South Africa's Coat of Arms and features all 11 official languages, as well as improved facilities for the partially

sighted. These features, together with other steps such as the “Makoya Moola” public awareness campaign conducted by the Bank to introduce the current note series to the South African public have been crucial building blocks in ensuring a more widely representative, sound and reliable currency for the country. The enthusiasm with which the public have accepted their new banknotes is a clear indication of their appreciation and approval.

It is important that research is ongoing into the technology of designing and producing banknotes. This competition assists us in keeping abreast of the latest design trends and techniques. The event also serves to recognise the design industry and there are encouraging indications that other design faculties and colleges intend becoming involved in future.

The competition provides the opportunity for identifying potential talent and has this year, from small beginnings in 2002, drawn from three provinces namely Gauteng, North West and Western Cape and involved the Cape Peninsular University of Technology, University of Stellenbosch, Midrand Graduate Institute, University of North West, Open Window School of Visual Communication, Design School of Southern Africa and Greenside Design Centre.

A great deal of work goes into these final presentations and students have to prepare and present their final design in a relatively short space of time. The finalists can indeed be proud of their achievements given the fact that it takes the best part of three years to develop an actual banknote. Selecting the best design for a banknote is, of course, only the first step towards its creation. A great deal of further work has to be done to transform a design into a high-precision banknote for large-scale production.

To all the students presenting tonight I wish to congratulate you on your achievements. I also wish to welcome the staff from the various tertiary institutions – you can certainly be proud of the diligent work done by your students in reaching the finals. To those who did not make the finals, thank you for your participation and hopefully you have gained valuable insight into the requirements for designing a banknote that may be useful in other areas of design.

I wish to conclude this address with the following quote from a speech given by Lucas Papademos, Vice President of the ECB at the opening of the Euro Banknote Design Exhibition in Athens in 2004:

“...our banknotes are only pieces of printed paper – beautifully designed paper of great sophistication, but simply printed paper, nonetheless. The confidence which the public places in a currency is not only based on their faith in the security features, integrity and quality of the banknotes (and coins) in their wallets. More importantly, it is based on trust in the currency’s institutional and economic underpinnings: the objectives and effectiveness of monetary policy....”³

These words serve to remind us of the important role of monetary policy in ensuring macroeconomic well-being by maintaining stable prices over the medium term. The public use banknotes and accept them for payment of debts because they trust that they will in turn be able to purchase goods and services to the face value of the banknotes. One of the main problems of inflation is an erosion of people’s trust in the face

³ Speech by Lucas Papademos, Vice President of the ECB, at the opening of the Euro Banknote Design Exhibition in Athens, 11 August 2004.

value of the notes. This goes to the heart of monetary policy which is the need to protect the purchasing power of our money.⁴

The Bank as you know is committed to this by maintaining inflation within the target range of 3 to 6 per cent. Although the upper limit of the range has been breached continuously in the last four months, with the most recent high point of 6,5 per cent in July 2007 – as it was published this morning, the Bank remains committed to achieving the target range in the near term, thereby ensuring that continued confidence is placed in our currency. For all of us, consumers of goods and services in this economy, prudent handling of our currency in this upward phase of the business cycle is critical for key price decisions going forward. To this end monetary policy has been tightened from June last year and the Monetary Policy Committee has raised interest rates on six occasions over the past 14 months by 50 basis points at a time.

Tonight we have the privilege of focusing our attention on various interesting new banknote design concepts and the fact that there is so much merit in the work of each of the finalists certainly presents the adjudicators with a formidable task in choosing a clear winner from amongst the finalists. I look forward to the closer inspection and discussions of the various banknote designs on display.

Thank you for your attention.

⁴ Rossouw, J., Background material on the South African Reserve Bank, Discussion Paper DP/06/08, p1.